

CA 1
HW 700
- 1982
B77



The June 1982 Budget
and
Social Policy



national council of welfare



conseil national du bien-être social

brooke claxton building, ottawa

(613) 995-6265

édifice brooke claxton, ottawa

CA1
HW 700
-1982 B77

THE JUNE 1982 BUDGET AND SOCIAL POLICY

The June budget's social policy aspects will adversely affect thousands of low-income Canadians.



THE JUNE 1982 BUDGET AND SOCIAL POLICY

In a recent statement ("Social Policy Aspects of the Budget", June 29, 1982), the Minister of National Health and Welfare claimed that the June 28 budget "fully protects the lowest-income Canadians and the working poor". Only persons "who are not in need" will be asked "to share in the serious sacrifices which are required to bring our country out of the economic crisis".

We disagree. The June budget's social policy aspects will adversely affect thousands of low-income Canadians.

Pensioners

The budget will limit the indexation of Old Age Security payments to 6 percent in 1983 and 5 percent in 1984. The monthly Old Age Security pension (received by all those over 65) will be \$249.23 as of January 1, 1983. Without the budget, the fully-indexed Old Age Security pension would have reached \$251.73 a month in January, 1983. However the Guaranteed Income Supplement, which goes to low-income citizens who receive Old Age Security, will be doubly indexed in 1983 and 1984 - fully to the cost of living (as before the budget) and by an additional amount to compensate for the loss of full indexation of Old Age Security.

Digitized by the Internet Archive
in 2022 with funding from
University of Toronto

At first glance these measures may seem equitable. The large number of low-income elderly persons who get the Guaranteed Income Supplement - close to 1.2 million, or half of the aged population - will receive the same total amount of Old Age Security and Guaranteed Income Supplement payments as they would have without the budget. The better-off half of elderly Canadians who do not qualify for the Guaranteed Income Supplement will give up \$77 each in Old Age Security benefits in 1983 and an estimated total of \$291 by the end of the restraint period. Presumably they can afford the sacrifice.

However a closer look shows that in fact many elderly men and women who live at or just above the poverty line will be hurt by the budget. In its present form the Guaranteed Income Supplement is directed to those with very low incomes and is not available to many poor and near-poor senior citizens. When the limits on indexation come into effect next January, a single person's eligibility for the Guaranteed Income Supplement will end once his income from earnings-related pension plans, savings and investments reaches \$6,123. This means that a single pensioner with a total income (including Old Age Security) of as low as \$9,200 - more than \$500 below the poverty line for large cities - will pay the same \$55 sacrifice in Old Age Security payments as someone living on a moderate or affluent income. Over 100,000 poor and near-poor elderly Canadians will

see their incomes reduced by this feature of the budget.

Mothers with Children

The budget takes the same approach to the two federal income security programs for families with children - Family Allowances and the Child Tax Credit.

Family Allowances are now fully indexed, but the budget will limit their indexation to 6 percent in 1983 and 5 percent in 1984. Without the budget, Family Allowances would have been \$358.44 for each child in 1983, but with the budget will amount to only \$342.24. However the refundable Child Tax Credit which goes to low and middle-income families will remain fully indexed to the cost of living. In addition, the Child Tax Credit will be increased by \$50 a child for the 1982 tax year only to compensate for the reduction in Family Allowance payments in 1983 and 1984. Therefore the Child Tax Credit for the 1982 tax year (received in 1983 at tax-filing time) will be \$343 instead of \$293.

Table 1 shows annual Family Allowance and Child Tax Credit payments for each child with and without the budget for 1982 through 1985. We use a cautiously optimistic scenario of inflation: the inflation rate is assumed to be 11 percent in 1982, 10 percent in 1983, 9 percent in 1984 and 8 percent in 1985.

Family Allowances and the Child Tax Credit total \$584 a child in 1982. In 1983, the reduction in Family Allowances is more than made up for by the \$50 increase in the Child Tax Credit, so that families will receive \$34 more for each child than they would have without the budget. However in 1984 the two programs will pay \$681 for each child, whereas without the budget they would have been worth \$716. Since the increase in 1983 balances the loss in 1984, low and middle-income families with children are no worse off by the end of 1984 as a result of the budget.

However in 1985 and subsequent years total benefits from the Family Allowances and the Child Tax Credit will be lower because of the June 1982 budget. To understand why this is so, we must look more carefully at the special \$50 increase in the Child Tax Credit.

The budget specifies that the \$50 rise in the Child Tax Credit received in 1983 is a "one-year temporary increase". The \$50 will not be carried over in subsequent years. The maximum Child Tax Credit for the 1983 tax year will be determined by increasing the 1982 rate, less the \$50, by the 1983 inflation rate. Therefore the maximum Child Tax Credit received in 1984 actually will be less than the 1983 benefit (\$322 as opposed to \$343 in our example).

In 1985 Family Allowances will be restored to full indexation. However the temporary reductions during the two previous years will permanently reduce the level of Family Allowances in 1985 and beyond. The higher the rate of inflation in 1983 and 1984, the greater this loss will be.

As Table 1 shows, with the June 1982 budget Family Allowances in 1985 will reach \$391 for each child, instead of \$429 without the budget. Adding in the Child Tax Credit, low and middle-income families will receive \$742 per child in 1985 - \$38 less than they would without the budget. In 1986, they get \$41 less.

Personal Income Tax Indexing

The June budget also limits the indexation of personal exemptions and tax brackets to 6 percent for the 1983 tax year and 5 percent for the 1984 tax year. Taxpayers will pay more in federal and provincial income taxes than if personal exemptions remained fully indexed to the cost of living. The more inflation exceeds the 6 percent and 5 percent limits in the next two years, the heavier the extra tax load will be. While this aspect of the budget will not affect Canadians so poor that they fall below the tax-paying threshold, many low and moderate-income taxpayers will suffer a reduction in their after-tax income.

Table 2 looks at two working poor families - a single parent with two children and one-earner couple with two children. Each family has earnings and disposable income (i.e., earnings plus Family Allowances plus Child Tax Credits less federal and provincial income taxes) that place them below the poverty line for a large city. Table 2 compares their disposable income before and after the indexation limits announced in the budget.

In 1982, a single parent with two children earning \$15,000 pays \$1,470 in federal and provincial taxes and receives \$522 in Child Tax Credits and \$646 in Family Allowances, resulting in a disposable income of \$14,698 - \$1,100 below the poverty line for a large city. If that family's earnings went up by 10 percent in 1983, its disposable income without the budget would be \$16,229. The budget increases the family's total Family Allowance and Child Tax Credit benefits but also raises their taxes. As a result, the budget costs a low-income one-parent family \$49 in 1983.

The burden of the 1982 budget increases in 1984. Not only are taxes higher due to the limits on indexation of the income tax system, but total benefits from the Family Allowances and Child Tax Credit are lower than if the budget did not exist. Table 2 shows that a single-parent family ends up \$300 further below the poverty line because of the budget.

The story is the same for a low-income couple with two children. They will get \$59 less disposable income in 1983 and \$336 less in 1984.

An Equitable Alternative

The Minister of Finance estimates the indexation limits for Family Allowances and Old Age Security will save \$260 million over the next two years. Partial indexation of personal exemptions and tax brackets will bring in \$1.3 billion more in tax revenues.

Middle and upper-income households will bear the brunt of these reductions. The budget argues that they can afford the sacrifice. Unfortunately many low and modest-income Canadians also will pay a price for the June budget - a price they can ill afford.

Instead of limiting the indexation of Family Allowances and Old Age Security, the Minister of Finance should put into practice the commitment to a more equitable tax system he made in his November 1981 budget. He should eliminate the tax exemption for dependent children and redirect the substantial savings that would result into an enriched Child Tax Credit.

The exemption for dependent children is a costly tax expenditure that helps the affluent most, middle-income taxpayers less, and the poorest Canadians not at all. In 1980 it cost the federal treasury \$655 million. If this money instead were used to substantially increase the Child Tax Credit, the federal government would compensate middle-income taxpayers for the loss of the children's tax exemption and provide a badly-needed supplement to the incomes of poor parents.

Moreover our proposals would involve no additional cost to the federal government. The money that would be lost by not limiting the indexation of Family Allowances and Old Age Security (\$260 million) would be made up by forgoing the \$50 one-shot increase in the Child Tax Credit (which will cost \$250 million).

We also recommend that the Minister of Finance institute a tax credit to shield low and modest-income taxpayers from tax increases that will result from the budget's limits on the indexation of personal exemptions and tax brackets. Several provincial governments already provide such tax relief to their lower-income residents. For example, a federal tax credit along the lines of British Columbia's Personal Income Tax Credit would substantially offset the increased taxes owed by the working poor families in Table 1.

T A B L E 1

FAMILY ALLOWANCES AND THE
CHILD TAX CREDIT, BEFORE AND
AFTER THE JUNE 1982 BUDGET

| | 1982 | 1983 | | 1984 | | 1985 | | 1986 | |
|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | Before | After | Before | After | Before | After | Before | After |
| Family Allowances | \$323 | \$358 | \$342 | \$394 | \$359 | \$429 | \$391 | \$463 | \$422 |
| Child Tax Credit | 261 | 293 | 343 | 322 | 322 | 351 | 351 | 379 | 379 |
| TOTAL | \$584 | \$651 | \$685 | \$716 | \$681 | \$780 | \$742 | \$842 | \$801 |
| CHANGE | | | +\$34 | | -\$35 | -\$38 | | -\$41 | |

Assumptions

Inflation is 11 percent in 1982, 10 percent in 1983,
9 percent in 1984 and 8 percent in 1985.

T A B L E 2

EFFECT OF THE JUNE 1982 BUDGET
ON THE DISPOSABLE INCOME OF
WORKING POOR FAMILIES

| Year | Earnings | <u>Disposable Income</u> | | |
|----------------------------------|----------|--------------------------|--------|--------|
| | | Before | After | Change |
| Single Parent - two children | | | | |
| 1982 | \$15,000 | \$14,698 | | |
| 1983 | 16,500 | 16,229 | 16,180 | - 49 |
| 1984 | 18,000 | 17,693 | 17,390 | - 303 |
| One-Earner Couple - two children | | | | |
| 1982 | \$18,000 | \$17,082 | | |
| 1983 | 19,800 | 18,845 | 18,786 | - 59 |
| 1984 | 21,600 | 20,563 | 20,227 | - 336 |

Note: We use the inflation assumptions of Table 1. Disposable income equals earnings plus Family Allowances plus Child Tax Credit less federal and provincial taxes.



Oxford

 ESSELTE

10%

